

Message Text

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C O N F I D E N T I A L JAKARTA 14959

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C O R R E C T E D C O P Y T E X T P A R A 8

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: PERTAMINA'S LEASED TANKERS

REF : STATE 254848

1. SUMMARY: DISCUSSIONS IN JAKARTA ABOUT POSSIBLE EFFECTS, BOTH FINANCIAL AND LEGAL, OF CURRENT TANKERS SITUATION HAVE PRODUCED EXPRESSIONS OF CONCERN BY BANKERS, OILMEN, AND WITHIN PERTAMINA. FIRST SIGNS NOW EMERGING, HOWEVER, THAT GOI GIVING CONSIDERATION TO POSSIBLE OUT-OF-COURT SETTLEMENT IN VIEW OF POTENTIAL SERIOUSNESS OF MATTER. END SUMMARY.

2. CONTACTS HERE WITH PERTAMINA, SEVERAL PRODUCTION-SHARING OIL COMPANIES, AND COMMERCIAL BANKS REVEAL STRONG DEGREE OF CONCERN OVER PRESENT TANKER SUITS AND CONSEQUENCES SUCH ACTIONS COULD HAVE ON INDONESIA'S CREDIT STANDING AND INVESTMENT CLIMATE. VIEW AMONG MANY IN PRIVATE SECTOR INDICATES THAT SHIPOWNERS APPEAR TO HAVE FAIRLY STRONG CASE AGAINST PERTAMINA ON GROUNDS OF NON-PAYMENT AS REFLECTED IN RECENT NEW YORK AND GUAM COURT DECISIONS. COROLLARY TO THIS SUGGESTS TO MANY THAT PERTAMINA'S LINE OF "MERITORIOUS DEFENSES" IS NOT BASED ON FIRMEST OF LEGAL FOUNDATIONS, SINCE IT ALSO BRINGS INTO QUESTION VALIDITY OF IBNU'S
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SIGNATURE ON VARIETY OF CONTRACTS INCLUDING MULTIMILLION DOLLAR

PACIFIC LIGHTING LNG CONTRACT WHICH WAS CONCLUDED
ON STRENGTH OF IBNU'S SIGNATURE ALONE.

3. THERE IS TALK NOW THAT GOI WILL PURSUE ITS LEGAL
CASE ON GROUNDS THAT IBNU COMMITTED FRAUD. IN RECENT
CONVERSATION WITH EMBOFFS, PERTAMINA PRESIDENT HARYONO
FRANKLY ADMITTED THAT SHIPOWNER BRUCE RAPPAPORT, "WAS
NOT A GOOD MAN TO DO BUSINESS WITH." HARYONO SAID THAT
GOI HAS CLEAR-CUT EVIDENCE THAT FRAUD WAS INVOLVED IN
CERTAIN DEALS. WHETHER OR NOT GOI GOES BEFORE HIGHER
COURTS AND ARGUES FRAUD, HOWEVER, REMAINS UNCERTAIN.
THERE IS GROWING RECOGNITION THAT SUCH AN ACTION,
COMING BEFORE ELECTION, COULD BE EXTREMELY RISKY, PAR-
TICULARLY IF IBNU DECIDES TO AIR WHAT NEWSWEEK REFERS TO
AS "INDONESIA'S DIRTY LINEN."

4. RECENT COURT RULINGS AGAINST PERTAMINA WOULD APPEAR
TO GIVE SHIPOWNERS VIRTUAL CARTE BLANCHE TO CONTINUE THEIR
ATTACHMENT ACTIONS ON PERTAMINA'S ASSETS. CONVERSATIONS
WITH PRODUCTION-SHARING CONTRACTORS INDICATE SHIPOWNERS
HAVE EMBARKED ON NEW AND MORE OMINOUS COURSE OF ACTION.
IN EARLY OCTOBER, LAWYERS FROM RAPPAPORT COMPANIES TOOK
DEPOSITIONS FROM UNION, ARCO, AND IIAPCO CONCERNING
SPECIAL SUPPLEMENTARY PAYMENTS MADE TO GOI UNDER TERMS
OF LAST AUGUST'S AGREEMENTS IN EFFORT TO ATTACH THESE
FUNDS. QUESTIONING WAS RELATED TO PERTAMINA'S ATTEMPT
AT DIVERSION OF FUNDS TO AVOID SHIPOWNERS' GRASP. WE
UNDERSTAND NEW YORK DISTRICT COURT HAS ALREADY ISSUED
ORDER TEMPORARILY RESTRAINING EXXON (VIA STANVAC) FROM
MAKING \$60/MILLION PAYMENT TO GOI.
IIAPCO ALSO FEELS ITS \$10/MILLION A MONTH SUPPLEMENTAL PAYMENT
IS IN DANGER.

5. NEEDLESS TO SAY, THESE TANKER ACTIONS COME AT A BAD
TIME IN TERMS OF IMPACT ON INDONESIA'S INVESTMENT CLI-
MATE. WHILE THERE IS NO PANIC YET IN TERMS OF DEFAULT
ACTIONS, IT IS BECOMING APPARENT THAT SOME BANKS, THE
MEDIUM AND SMALLER ONES PARTICULARLY, ARE STARTING TO
FEEL A BIT UNEASY ABOUT THE SITUATION. TO SOME DEGREE,
THIS NERVOUSNESS WAS REFLECTED IN RECENT FLOATING OF
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\$75 MILLION SYDICATED LOAN FOR CILACAP REFINERY COST
OVERRUNS. CITIBANK, LEAD BANK FOR THE LAON, REPORTED
THAT ALTHOUGH LOAN CLOSED WITH \$90 MILLION SUBSCRIBED
AND 9 OR 10 BANKS PARTICIPATING, THE LOAN PROVED TOUGHER
TO MARKET THAN CITIBANK HAD ANTICIPATED. ADMITTEDLY,
TERMS OF THE LOAN (7 YEARS AT ONE AND THREE QUARTERS
PERCENT ABOVE SINGAPORE BANK RATE) WERE LESS ATTRACTIVE
THAN SOME RECENT ISSUES, BUT ANOTHER FACTOR WAS LOSS OF

INVESTOR CONFIDENCE IN PART BECAUSE OF VERY NEGATIVE PRESS THAT INDONESIA HAS RECEIVED OF LATE, PARTICULARLY WITH REGARD TO TANKER PROBLEM AND TECHNICAL DEFAULT ISSUE. IN HIS RECENT CONVERSATION WITH EMBOFFS, HARYONO NOTED THAT HE IS AWARE OF BANKERS' CONCERNS RESULTING FROM TANKER SUITS. IN THIS CONNECTION, WE HAVE HEARD REPORTS THAT GOI IS CONSIDERING ASKING MORGAN GUARANTY, LEAD BANK FOR THE \$850 MILLION SYNDICATE LOANS NEGOTIATED IN 1975, TO REVISE DEFAULT LANGUAGE IN LOAN AGREEMENTS SO THAT HARASSMENT TACTICS OF SHIPOWNERS WILL NOT AUTOMATICALLY PUT GOI IN POSITION OF BEING IN TECHNICAL DEFAULT.

6. ATTACHMENT OF VESSELS IS ALSO CAUSING MARKETING AND TRANSPORTATION PROBLEMSAM HARYONO AND PERTAMINA'S NEW SHIPPING DIRECTOR BOTH HAVE ADMITTED THAT TIE-UP OF SEVERAL VESSELS IS STARTING TO HURT PERTAMINA'S MARKETING EFFORTS. RECENT SPOT CRUDE DEALS WHICH WOULD HAVE INVOLVED INDONESIAN TANKERS HAVE BEEN TURNED DOWN FOR FEAR THESE SHIPS MIGHT BE ARRESTED. HARYONO CANDIDLY ADMITTED THAT HE CAN NO LONGER SEND TANKERS TO SINGAPORE, GUAM, HONG KONG, FOR BUNKERS.

7. TANKER CASES HAVE PRODUCED SOME OTHER INDIRECT SPIN-OFFS. RECENT LEHMAN BROS. ADVISOR VISITING JAKARTA MENTIONED THAT FPC HAS DECIDED POSTPONE FINANCIAL HEARINGS ASSOCIATED WITH PACIFIC LIGHTING-PACIFIC GAS AND ELECTRIC APPLICATION ON INDONESIAN IMPORTS UNTIL DUST HAS SETTLED ON CURRENT TANKER ACTIONS.

8. OFFSETTING SOME OF THIS GLOOM ARE RECENT INDICATIONS THAT GOI BEGINNING TO FULLY RECOGNIZE SERIOUSNESS OF SITUATION AND MAY, THEREFORE, OPT FOR COMPROMISE OUT
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OF COURT SETTLEMENTS WITH SHIPOWNERS. MINES MIN SADLI TOLD AMBASSADOR AND E/COUNS THAT GOI MIGHT POSSIBLY MOVE TOWARD OUT OF COURT SETTLEMENTS. IT WAS NOT CLEAR, HOWEVER, IF THIS WAS SADLI'S PERSONAL VIEW OR IF HE WAS ECHOING VIEWS OF OTHERS IN CABINET. SIMILARLY, PERTAMINA PRESIDENT HARYONO ALSO MENTIONED THAT THOUGHT WAS BEING GIVEN TO DISCUSSIONS WITH SHIPOWNERS ALTHOUGH HE MADE IT CLEAR THAT NOT ALL COMPANIES MIGHT BE INVOLVED. AHRYONO SAID SUCH SETTLEMENTS MIGHT COST GOI UP TO \$600 MILLION AND FELT SUCH MONEY COULD BE USED TO BETTER ADVANTAGE FOR DEVELOPMENT PURPOSES. IT WAS OBVIOUS HE FOUND THOUGHT OF COMPROMISE WITH SHIPOWNERS SUCH AS RAPPAPORT DISTASTEFUL AND THAT HE WAS RELUCTANT TO PAY THEM ANYTHING.

9. EMBASSY HAS JUST LEARNED THAT GOI'S LONDON LAWYERS,
INCE AND SONS, HAVE ISSUED LETTERS TO VARIOUS SHIPOWNERS
NOTIFYING THEM THAT GOI CONSIDERS CERTAIN CONTRACTS NULL
AND VOID ON BASIS OF /COMPLICITY" AND "COLLUSION." FIRST
OF LONDON COURT CASES MAY BEGIN LATER THIS MONTH.
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